

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 2446 – SB 2572**

January 29, 2012

**SUMMARY OF BILL:** Effective January 1, 2013, phases out the inheritance tax over a three-year period consisting of a 50 percent tax rate reduction for all net taxable estates of decedents dying in tax year 2013, an additional 50 percent tax rate reduction for all net taxable estates of decedents dying in tax year 2014, and the repeal of the inheritance tax for all estates of decedents dying in tax year 2015 or thereafter.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$47,303,800/FY13-14  
\$70,955,700/FY14-15  
\$94,607,600/FY15-16 and Subsequent Years**

**Decrease State Expenditures - \$253,000/FY15-16  
\$472,100/FY16-17  
\$544,600/FY17-18 and Subsequent Years**

**Increase Local Revenue - \$690,400/FY13-14  
\$1,035,600/FY14-15  
\$1,380,800/FY15-16 and Subsequent Years**

**Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.**

**Assumptions:**

- One hundred percent of inheritance tax revenue is allocated to the General Fund.
- According to the Department of Revenue (DOR), inheritance tax collections in FY10-11 were \$97,875,967. This number is assumed to remain constant in subsequent years.
- Given the effective date of January 1, 2013, and the current nine-month filing extension following a decedent's date of death, the first fiscal year in which state revenue will be impacted is assumed to be FY13-14.

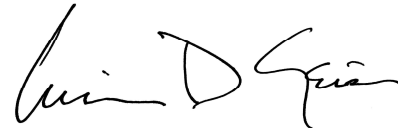
- One hundred percent of estates of decedents dying in tax year 2013 will be settled no later than June 30, 2014 (or by the end of FY13-14). It is assumed this collection pattern will continue into perpetuity.
- Given the 50 percent rate reduction for tax year 2013, the decrease in inheritance tax revenue for FY13-14 is estimated to be \$48,937,984 ( $\$97,875,967 \times 50.0\%$ ).
- Given a subsequent 50 percent rate reduction for tax year 2014, the total decrease in inheritance tax revenue for FY14-15 is estimated to be \$73,406,976 [ $\$48,937,984 + (\$48,937,984 \times 50.0\%)$ ].
- Given the elimination of the inheritance tax beginning with tax year 2015, the total recurring decrease in inheritance tax revenue is estimated to be \$97,875,967 beginning in FY15-16.
- Fifty percent of tax savings will be spent in the economy on sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The increase in state sales tax revenue for FY13-14 is estimated to be \$1,712,829 ( $\$48,937,984 \times 50.0\% \times 7.0\%$ ); the increase in state sales tax revenue for FY14-15 is estimated to be \$2,569,244 ( $\$73,406,976 \times 50.0\% \times 7.0\%$ ); and the recurring increase in state sales tax revenue beginning in FY15-16 is estimated to be \$3,425,659 ( $\$97,875,967 \times 50.0\% \times 7.0\%$ ).
- The increase in local option sales tax revenue for local governments is estimated to be \$611,725 ( $\$48,937,984 \times 50.0\% \times 2.5\%$ ) in FY13-14; the increase in local option sales tax revenue is estimated to be \$917,587 ( $\$73,406,976 \times 50.0\% \times 2.5\%$ ) in FY14-15; and the recurring increase in local option sales tax revenue is estimated to be \$1,223,450 ( $\$97,875,967 \times 50.0\% \times 2.5\%$ ) beginning in FY15-16.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The net increase in state sales tax revenue is estimated to be \$1,634,167 [ $\$1,712,829 - (\$1,712,829 \times 4.5925\%)$ ] in FY13-14; the net increase in state sales tax revenue is estimated to be \$2,451,251 [ $\$2,569,244 - (\$2,569,244 \times 4.5925\%)$ ] in FY14-15; and the net recurring increase in state sales tax revenue is estimated to be \$3,268,336 [ $\$3,425,659 - (\$3,425,659 \times 4.5925\%)$ ] beginning in FY15-16.
- The total increase in sales tax revenue to local governments is estimated to be \$690,387 [ $\$611,725 + (\$1,712,829 \times 4.5925\%)$ ] in FY13-14; the total increase in sales tax revenue to local governments is estimated to be \$1,035,580 [ $\$917,587 + (\$2,569,244 \times 4.5925\%)$ ] in FY14-15; and the total recurring increase in sales tax revenue to local governments is estimated to be \$1,380,773 [ $\$1,223,450 + (\$3,425,659 \times 4.5925\%)$ ] beginning in FY15-16.
- The net decrease in state revenue for FY13-14 is estimated to be \$47,303,817 ( $\$48,937,984 - \$1,634,167$ ); the net decrease in state revenue for FY14-15 is estimated to be \$70,955,725 ( $\$73,406,976 - \$2,451,251$ ); and the net recurring decrease in state revenue beginning in FY15-16 is estimated to be \$94,607,631 ( $\$97,875,967 - \$3,268,336$ ).
- Given that tax rate reductions will not reduce the number of tax returns filed in the first two years, there will be no expenditure savings associated with the bill until the inheritance tax is eliminated. The first year in which DOR would be able to begin

eliminating positions will be in FY15-16. In FY15-16, DOR will be able to eliminate five positions from the Audit Division and one position from the Processing Division. The decrease in state expenditures associated with the elimination of these positions is estimated to be approximately \$253,000. Therefore, the decrease in state expenditures for FY15-16 will be \$253,000. In FY16-17, DOR will be able to eliminate an additional four positions from the Audit Division. The decrease in state expenditures associated with the elimination of these four positions is estimated to be \$219,100. Therefore, the total decrease in state expenditures for FY16-17 is estimated to be \$472,100 (\$253,000 + \$219,100). In FY17-18, DOR will be able to eliminate one final position from the Audit Division. The decrease in state expenditures associated with the elimination of this position is estimated to be \$72,500. Therefore, the total recurring decrease in state expenditures beginning in FY17-18 is estimated to be \$544,600 (\$253,000 + \$219,100 + \$72,500).

- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur if the state's population increases as a result of a reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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